



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE _____ October 4, 2004

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the Sewer Funds of the City of Bernard, Iowa.

Vaudt reported the Sewer Funds' receipts totaled \$545,336 for the year ended June 30, 2002. The receipts included \$456,400 in direct federal receipts, \$86,949 in federal receipts passed through the state and \$1,983 in sewer rental fees collected beginning in April 2002. The Sewer Funds also received loan agreement anticipation project note proceeds of \$87,107 reported as other financing sources.

Disbursements for the year totaled \$590,196, and included \$583,017 for construction of the sewer project, \$5,545 for interest on debt and \$1,634 for two months of sewer utility operating costs.

The report contains recommendations to the City Council and other City officials. For example, operating procedures should be reviewed to obtain the maximum internal control possible. The City responded alternatives to strengthen internal control are being considered.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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**CITY OF BERNARD
SEWER FUNDS
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2002**

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City of Bernard

Sewer Funds

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2002)		
Robert Kenneally	Mayor	Jan 2002
Frank Conlan	Council Member	Jan 2003
Patrick Hentges	Council Member	Jan 2003
Rick McDonnell	Council Member	Jan 2003
Michael Kinsella	Council Member	Jan 2004
Dave McDonnell	Council Member	Jan 2004
Karla Mahoney	Clerk	Indefinite
William G. Blum	Attorney	Indefinite
(After January 2002)		
Robert Kenneally	Mayor	Jan 2004
Frank Conlan	Council Member	Jan 2003
Patrick Hentges	Council Member	Jan 2003
Rick McDonnell	Council Member	Jan 2003
Michael Kinsella	Council Member	Jan 2004
Dave McDonnell	Council Member	Jan 2004
Karla Mahoney	Clerk	Indefinite
William G. Blum	Attorney	Indefinite

**City of Bernard
Sewer Funds**



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the Sewer Funds of the City of Bernard, Iowa, as of and for the year ended June 30, 2002. These financial statements are the responsibility of the City of Bernard's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in note 1 to the financial statements, the financial statements present only the Sewer Funds of the City of Bernard and do not purport to, and do not, present fairly the results of the cash transactions of the City of Bernard and its indebtedness at June 30, 2002 in conformity with U.S. generally accepted accounting principles.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the Sewer Funds have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2001.

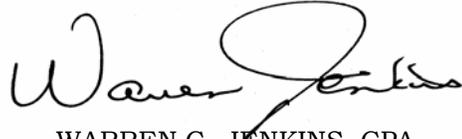
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2001, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the Sewer Funds of the City of Bernard as of and for the year ended June 30, 2002, and the indebtedness of the Sewer Funds at June 30, 2002, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated April 1, 2004 on our consideration of the City of Bernard's internal control over financial reporting of the Sewer Funds and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 1, 2004

Financial Statements

**City of Bernard
Sewer Funds**

City of Bernard
Sewer Funds

Combining Statement of Cash Transactions

Year ended June 30, 2002

	Enterprise Funds		Total
	Sewer Utility	Sewer Project	
Receipts:			
Use of money and property:			
Interest on investments	\$ 4	-	4
Intergovernmental:			
Community development block grant	-	86,949	86,949
Communities facilities grant	-	456,400	456,400
Charges for service:			
Sewer rental fees	1,983	-	1,983
Total receipts	1,987	543,349	545,336
Disbursements:			
Home and Community Environment Program:			
Personal services	1,552	-	1,552
Contractual services	57	-	57
Commodities	25	-	25
Capital outlay	-	583,017	583,017
Debt service:			
Interest	-	5,545	5,545
Total disbursements	1,634	588,562	590,196
Excess (deficiency) of receipts over (under) disbursements	353	(45,213)	(44,860)
Other financing sources:			
Loan agreement anticipation project note proceeds	-	87,107	87,107
Excess of receipts and other financing sources over disbursements	353	41,894	42,247
Balance beginning of year	557	6,093	6,650
Balance end of year	\$ 910	47,987	48,897

See notes to financial statements.

City of Bernard
Sewer Funds

Statement of Indebtedness

Year ended June 30, 2002

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Sewer Revenue Loan Agreement Anticipation Project Note	Jun 11, 2001	6.50%	\$ 200,000

See notes to financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
112,893	87,107	-	200,000	5,545	9,408

City of Bernard
Sewer Funds

Notes to Financial Statements

June 30, 2002

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Sewer Funds of the City of Bernard are a department of the City of Bernard, Iowa as determined by the Governmental Accounting Standards Board. The Sewer Funds are governed by the City Council, which exercises oversight responsibility under this criteria.

B. Fund Accounting

The accounts of the Sewer Funds are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and balance. The funds are classified as follows in the financial statements:

Enterprise Funds – The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

C. Basis of Accounting

The City of Bernard maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Sewer Funds are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

The Sewer Funds are incorporated into the City's budget and are not budgeted separately as an enterprise activity. As a result, a comparison of receipts, disbursements and changes in balances with budgeted information is not presented.

Formal and legal budgetary control is based upon four major classes of disbursements, known as programs, not by fund. These four programs are community protection, human development, home and community environment and policy and administration.

(2) Deposits

The Sewer Funds' deposits in banks at June 30, 2002 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

(3) Sewer Revenue Loan Agreement Anticipation Project Note Payable

On June 11, 2001, the City entered into an agreement with U.S. Bank, N.A., Iowa, (formerly Firststar Bank, N.A.) for the issuance of a \$200,000 sewer revenue loan agreement anticipation project note at 6.50% per annum interest. The note was issued pursuant to the provisions of Section 76.13 of the Code of Iowa to provide interim financing for the construction of improvements and extensions to a municipal sanitary sewer system of the City.

The City was advanced loan funds upon request as the sewer system project progressed. At June 30, 2002, the City had drawn the entire \$200,000 authorized, with \$87,107 drawn during the year ended June 30, 2002.

The sewer revenue loan agreement anticipation project note will be repaid from the proceeds of sewer revenue notes to be issued through a loan agreement with the U.S. Department of Agriculture - Rural Development. The outstanding note payable balance at June 30, 2002 totaled \$200,000 with accrued interest of \$9,408.

(4) Pension and Retirement Systems

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. There were no disbursements to IPERS from the Sewer Funds during the year ended June 30, 2002 since all required contributions were paid from other City funds.

(5) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the program level. During the year ended June 30, 2002, the City's disbursements in the home and community environment program exceeded the amount budgeted.

(6) Risk Management

The Sewer Funds of the City are exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Sewer Funds assume liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Contractual Commitment

The City entered into an agreement with Horsfield Construction, Inc., dated September 10, 2001, to construct a municipal wastewater treatment system at a cost of approximately \$581,000. As of June 30, 2002, approximately \$519,000 had been paid on the contract. The remaining \$62,000 will be paid as work on the project progresses.

(8) Subsequent Event

The City entered into an agreement with the U.S. Department of Agriculture – Rural Development on August 13, 2002 to issue \$215,600 of sewer revenue notes at 4.50% per annum interest. The proceeds from the notes will be used to refund the sewer revenue loan agreement anticipation project note and pay a portion of the costs to construct a municipal wastewater treatment system.

Supplemental Information

Schedule 1

City of Bernard
Sewer Funds

Schedule of Expenditures of Federal Awards

Year ended June 30, 2002

Grantor/Program	CFDA Number	Agency or Pass-through Number	Expenditures
Direct			
U.S. Department of Agriculture: Communities Facilities Loans and Grants	10.766		\$ 410,349
Indirect:			
U.S. Department of Housing and Urban Development: Iowa Department of Economic Development: Community Development Block Grants / State's Program	14.288	99-WS-017	86,034
Total			<u>\$ 496,383</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant and loan activity of the Sewer Funds of the City of Bernard and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

See accompanying independent auditor's report.



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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the Sewer Funds of the City of Bernard, Iowa, as of and for the year ended June 30, 2002, and have issued our report thereon dated April 1, 2004. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2001.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Sewer Funds' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance described in the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Sewer Funds' operations for the year ended June 30, 2002 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Sewer Funds. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior audit statutory comments have all been resolved except for items IV-A-02 and IV-B-02.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Bernard's internal control over financial reporting of the Sewer Funds in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements of the Sewer Funds and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting of the Sewer Funds and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Bernard's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-02 and II-B-02 are material weaknesses. The prior audit reportable condition has not been resolved and is restated as item II-A-02.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Bernard and other parties to whom the City of Bernard may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Bernard during the course of our audit. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 1, 2004

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance**

**City of Bernard
Sewer Funds**



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Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the Sewer Funds of the City of Bernard, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2002. The Sewer Funds of the City of Bernard's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Bernard's management. Our responsibility is to express an opinion on the City of Bernard's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Sewer Funds of the City of Bernard's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Sewer Funds of the City of Bernard's compliance with those requirements.

In our opinion, the Sewer Funds of the City of Bernard complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the City of Bernard is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Bernard's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Bernard and other parties to whom the City of Bernard may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 1, 2004

City of Bernard
Sewer Funds

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

Part I: Summary of the Independent Auditor's Results:

- (a) A qualified opinion was issued on the financial statements, which were prepared in conformity with a comprehensive basis of accounting other than U.S. generally accepted accounting principles, since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2001.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over the major program was identified. The reportable condition was not considered a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 10.766 – Communities Facilities Loans and Grants.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The Sewer Funds of the City of Bernard did not qualify as a low-risk auditee.

City of Bernard
Sewer Funds

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-02 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has control over each of the following areas:

- (1) Accounting system – performance of all general accounting functions and custody of assets.
- (2) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (3) Disbursements – processing, recording and reconciling.
- (4) Payroll – preparing, recording and distributing.
- (5) Financial reporting – preparing, reconciling and distributing.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – Duties have been segregated to the limit with the number of employees available. The mayor and council are very involved with balances and checks issued. Mayor reviews all processes.

Conclusion – Response accepted.

II-B-02 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled.

The amounts deposited to the Sewer Utility account for June were \$45 less than the amounts recorded as received in the utility charge book.

Recommendation – Procedures should be established to prepare a reconciliation of utility billings, collections and delinquencies for each billing period. The collections for the Sewer Utility should be deposited intact. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies. The listing of delinquent accounts should be retained.

Response – Presently a new computer system has been introduced to the City's record keeping system. Bank statements and billing will be more closely balanced and reconciled after each billing.

Conclusion – Response accepted.

City of Bernard
Sewer Funds

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

II-C-02 Cancellation of Documentation – Invoices and other supporting documentation were not marked paid to help prevent possible duplicate payment.

Recommendation – All invoices and supporting documentation should be properly canceled to help prevent possible duplicate payment.

Response – Clerk will begin recording check number and paid date on all invoices paid. Council has also asked if a paid stamp would be useful.

Conclusion – Response accepted.

II-D-02 Timesheets – Time sheets were not required of the City Clerk. The City Clerk did not maintain a timesheet or other adequate documentation to record hours worked.

Recommendation – The City Clerk should maintain a timesheet or other adequate documentation that is reviewed by an independent person for reasonableness and approved. The approval should be indicated by a signature or other documentation.

Response – Clerk will need to complete a time sheet on hours worked.

Conclusion – Response accepted.

II-E-02 Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement personnel and act as a quick reference for staff and officials.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save the City Clerk time by recording decisions so they will not have to be made each time the same or a similar situation arises.

Response – An accounting policies and procedure manual will be developed and approved by the Council. This will need to be completed from scratch and will take some time.

Conclusion – Response accepted.

City of Bernard
Sewer Funds

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

II-F-02 Chart of Accounts and Accounting System – The City did not have an established chart of accounts for the Sewer Funds. The accounting system consisted of a checkbook register detailing the receipts and checks written maintained by the City Clerk. General and subsidiary ledgers have not been established.

Recommendation – To provide better financial information and control, a chart of accounts such as the one endorsed by the City Finance Committee should be established. Appropriate ledgers and subsidiary ledgers should be maintained and reconciled monthly for all funds.

Response – Manual process was being used - now a computer is being used. Balancing and keeping track of each account will be set up with a separate chart of accounts per fund.

Conclusion – Response accepted.

II-G-02 Receipts – Prenumbered receipts were not issued for collections.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money. Control over collections would be strengthened if prenumbered receipts were written in numerical sequence with an adequate explanation as to the nature of the collection.

Response – Numbered receipt book needs to be ordered. Also, each total deposit needs to be recorded on the numbered receipt. Also, a receipt should be completed for each cash payment received and given to the individual paying the cash.

Conclusion – Response accepted.

II-H-02 Safeguarding City Records – Although access to the City Hall is limited to employees with responsibility for the accounting records, the accounting records were not stored in a secure place, such as a fireproof locked file.

Recommendation – Accounting records should be stored in a secure place, such as a fireproof locked file.

Response – Documents and records need to be located in a fire proof file. Documents were pulled for auditors use only.

Conclusion – Response accepted.

City of Bernard
Sewer Funds

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

III-A-02 Timely Audit and Report Submission – The City did not provide for an audit of the Sewer Funds’ Communities Facilities Loans and Grants Program to be completed and submitted to the Federal Clearinghouse by March 31, 2003 as required by OMB Circular A-133, paragraph .235(c)(3).

Recommendation – The City should establish procedures to ensure compliance with audit and report submission requirements for future Federal programs.

Response and Corrective Action Planned – We will request audits of other projects, as necessary.

Conclusion – Response accepted.

City of Bernard
Sewer Funds

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-02 Official Depositories – A resolution naming an official depository has not been adopted. A depository agreement has not been approved.

Recommendation – The City should approve a written depository resolution detailing an approved bank and the maximum deposit amount as required by Chapter 12C.2 of the Code of Iowa.

Response – Council has instructed the Clerk to contact US Bank in Maquoketa to make them a official depository for the City of Bernard.

Conclusion – Response acknowledged. The City should also approve an official depository by resolution recorded in the minutes record.

IV-B-02 Certified Budget – Sewer utility operations began in April 2002. However, the adopted budget in the Home and Community Environment Program was not amended for the additional activity. The budget certified by the City included all City financial activity in the General Fund rather than separately budgeting the utility’s financial activity in Proprietary Funds.

Disbursements during the year ended June 30, 2002 exceeded the amount budgeted in the Home and Community Environment Program. Chapter 384.20 of the Code of Iowa states, in part, that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in sufficient amount in accordance with Chapter 384.20 of the Code of Iowa before disbursements were allowed to exceed the budget. In addition, the sewer and water utilities should be budgeted separately to improve fiscal control.

Response – Sewer and water will be budgeted as separate proprietary functions. Each account has been itemized individually on the file. Also, the budgets will be amended before disbursements exceed the budget.

Conclusion – Response accepted.

IV-C-02 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

IV-D-02 Travel Expense – No disbursements of Sewer Funds’ money for travel expenses of spouses of City officials or employees were noted.

IV-E-02 Business Transactions – There were no business transactions between the Sewer Funds and City officials or employees.

City of Bernard
Sewer Funds

Schedule of Findings and Questioned Costs

Year ended June 30, 2002

IV-F-02 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-G-02 Council Minutes – Certain minutes of City Council meetings were not properly signed.

Recommendation – Minutes should be properly signed in accordance with Chapter 380.7 of the Code of Iowa.

Response – Council has encouraged the Clerk and Mayor to sign the minutes document after each meeting when the minutes are approved.

Conclusion – Response accepted.

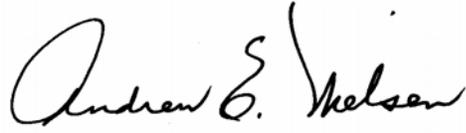
IV-H-02 Deposits and Investments – Except as noted in item IV-A-02, no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

City of Bernard
Sewer Funds

Staff

This audit was performed by:

Ronald D. Swanson, CPA, Manager
Heather B. Allen, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State